

Top Secret



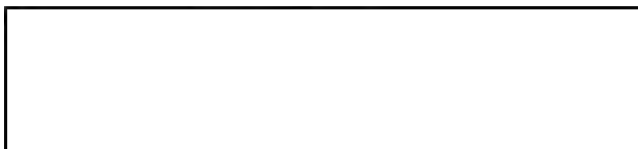
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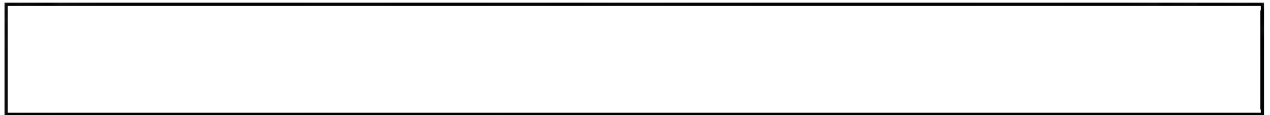
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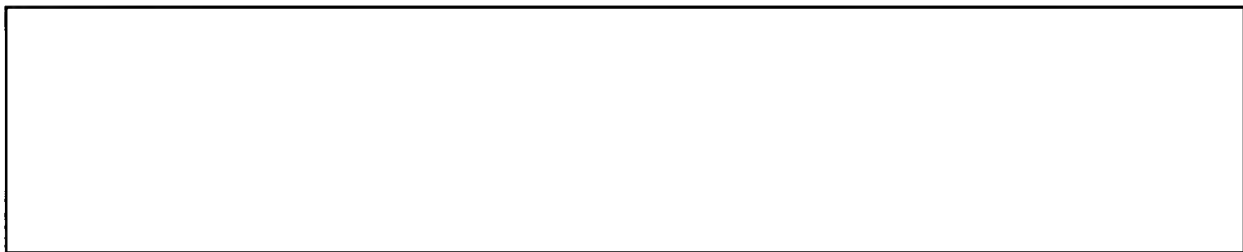
EUROPEAN COMMUNITIES: Agreed response to the floating of the pound eludes members. (Page 3)



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FRANCE: Pompidou may be planning to drop Prime Minister Chaban-Delmas. (Page 7)

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EUROPEAN COMMUNITIES: The ten present and potential members have been thus far unable to agree upon a joint response to the floating of the pound, and no common decision is likely today when their finance ministers meet.

Some EC officials fear that the floating pound could be the first crack in the Smithsonian structure, ultimately causing the realignment to break down. They believe that other countries with weak currencies, such as Italy and Denmark, might follow the precedent. Although the potential seriousness of this situation was discussed on 24 June at a meeting of EC central bankers and finance ministry technocrats, no consensus of views on appropriate reactions emerged.

The finance ministers will attempt today, as most major exchange markets remain closed, to agree upon a united policy. The differences between the Germans and French probably will be insurmountable, however. If heavy speculation against the dollar appears likely to resume, West German Finance Minister Schiller is expected to advocate a joint float of EC currencies against the dollar, while French Finance Minister Giscard d'Estaing instead will probably urge tighter controls over EC capital inflows.

A Swiss Finance Ministry spokesman has stated his belief that all EC countries eventually will decide to float their currencies--presumably individually rather than jointly--against the dollar, with the exception of France. If this happens, Swiss and Japanese officials have indicated that they will also be forced to float their currencies.

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FRANCE: President Pompidou reportedly plans a cabinet shake-up by mid-July that could oust Prime Minister Jacques Chaban-Delmas.

Should he elect to replace Chaban-Delmas, the prime candidates to replace the Prime Minister reportedly are Minister of National Education Oliver Guichard and Minister of Overseas Territories Pierre Messmer. Guichard, the most likely, is an able administrator with close personal ties to Pompidou. He shares the French president's concept of the supportive role for prime ministers and could be counted on faithfully to implement Gaullist programs.

Pompidou's key concern is to ease strains within the ruling coalition over the government's policies and leadership. The government has been embarrassed in recent months by a series of financial scandals, by unfavorable publicity over Chaban-Delmas' tax returns, and by its failure to win an overwhelming vote of confidence in the recent referendum on enlargement of the European Communities. Despite the National Assembly's resounding vote of confidence in Chaban-Delmas on 24 May, a number of Gaullists--including several close advisers to Pompidou--believe that his retention will damage the government's prospects in approaching national parliamentary elections.

Chaban-Delmas' ties with center have long been regarded as a plus for the Gaullists. The failure of many pro-European centrists to support Pompidou in the referendum may have convinced him that he cannot score points by moving closer to their position, and that he should therefore concentrate on rebuilding confidence among hard-core Gaullists.

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Some politicians have advocated advancing the date of the legislative elections, which must be held by March 1973, to force the Gaullists to pull together to ward off the threat of heavy losses. A cabinet reshuffle, however, could serve a similar purpose by giving the government a new and more positive image.

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